

**BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA**

**DOCKET NO. 2011-271-E**

In the Matter of:

Application of Duke Energy Carolinas,  
LLC for Authority to Adjust and Increase  
Its Electric Rates and Charges

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**DIRECT TESTIMONY OF  
J. DANNY WILES FOR  
DUKE ENERGY CAROLINAS, LLC**

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## **I. INTRODUCTION AND PURPOSE**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is J. Danny Wiles and my business address is 550 South Tryon Street,  
3 Charlotte, North Carolina.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Duke Energy Business Services, LLC as Vice President,  
6 Franchised Electric & Gas Accounting for Duke Energy Corporation ("Duke  
7 Energy"). I am an officer of Duke Energy Carolinas, LLC ("Duke Energy  
8 Carolinas" or the "Company") with the title of Vice President, Accounting.

9 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**  
10 **QUALIFICATIONS.**

11 A. I graduated from the University of North Carolina at Chapel Hill with a Bachelor  
12 of Science in Business Administration. I am a certified public accountant and a  
13 member of the American Institute of Certified Public Accountants ("CPAs").

14 **Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.**

15 A. I practiced public accounting for 16 years with Arthur Andersen, LLP, where I  
16 was promoted to Audit Partner in 1999. I joined Duke Energy Corporation in  
17 2002 as Managing Director of Corporate Accounting Research. I became Vice  
18 President of Duke Energy's U.S. Franchised Electric & Gas ("Franchised  
19 Electric") Business Unit in February 2008. I also am one of the Company's  
20 accounting representatives with Edison Electric Institute, a trade association of  
21 electric utility companies.

**Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AS VICE PRESIDENT, ACCOUNTING.**

1 A. As Vice President, Accounting, I have overall responsibility for the accounting  
2 functions of the Company's Franchised Electric business segment, which includes  
3 Duke Energy Carolinas' regulated utility businesses in South Carolina and North  
4 Carolina. I am responsible for the books of account, accounting records, and  
5 financial statements for the Franchised Electric operations of these regulated  
6 utility businesses.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. My testimony will cover the financial position of Duke Energy Carolinas at  
9 December 31, 2010, and the actual results of the Company's operations for the  
10 calendar year ending December 31, 2010. The Company's financial position and  
11 operating results and the actual data required under 26 S.C. Code Ann. Reg. 103-  
12 823 of the Public Service Commission of South Carolina's (the "Commission")  
13 Rules and Regulations are set forth in Wiles Exhibit 1 and in the column labeled  
14 "Total Company Per Books" in Shrum Exhibit 1. I discuss the amount of the  
15 Company's nuclear decommissioning costs recorded in the test year and the  
16 results of the Company's funding study using the 2008 nuclear decommissioning  
17 cost study. I also discuss the amount of the Company's depreciation expense.

18 **Q. ARE YOU FAMILIAR WITH THE ACCOUNTING PROCEDURES AND**  
19 **BOOKS OF ACCOUNT OF DUKE ENERGY CAROLINAS?**

20 A. Yes. The books of account of Duke Energy Carolinas follow the Uniform System  
21 of Accounts prescribed by the Federal Energy Regulatory Commission. This

1 Uniform System of Accounts has been adopted by the Commission and is  
2 followed by major utilities subject to its jurisdiction.

3 **Q. WHAT STEPS DOES THE COMPANY TAKE TO ENSURE THAT ITS**  
4 **BOOKS AND RECORDS ARE ACCURATE AND COMPLETE?**

5 A. Duke Energy Carolinas maintains and relies upon an extensive system of internal  
6 accounting controls and audits by both internal and external auditors. The system  
7 of internal accounting controls provides reasonable assurance that all transactions  
8 are executed in accordance with management's authorization and are recorded  
9 properly.

10 The system of internal accounting controls is reviewed annually, tested,  
11 and documented by the Company to provide reasonable assurance that amounts  
12 recorded on the books and records of the Company are accurate and proper. In  
13 addition, independent certified public accountants perform an annual audit to  
14 provide assurance that internal accounting controls are operating effectively and  
15 that the Company's financial statements are materially accurate.

16 **II. 2010 FINANCIAL POSITION AND RESULTS**

17 **Q. PLEASE DESCRIBE WHAT IS PRESENTED ON WILES EXHIBIT 1.**

18 A. Wiles Exhibit 1 sets forth the Company's financial statements. Pages 1 and 2  
19 contain the Company's Unconsolidated Balance Sheet at December 31, 2010.  
20 Page 3 is the Company's Unconsolidated Income Statement for the year ended  
21 December 31, 2010. Page 4 is the Company's Unconsolidated Statement of  
22 Capitalization at December 31, 2010. The actual capitalization also is shown on  
23 Page 2, Column 1 of Shrum Exhibit 1. The information shown on Wiles's Exhibit

1 1 is also shown on Pages 5 through 5c of Exhibit C to the Company's  
2 Application.

3 **Q. ARE THE CAPITAL EXPENDITURES AND OPERATING EXPENSES**  
4 **REPRESENTED ON WILES EXHIBIT 1 ACCURATE?**

5 A. Yes. An integral part of the Company's system of internal accounting controls  
6 includes various budgeting, planning, and review procedures to establish and  
7 monitor the capital and operating budgets, as well as actual expenditures.

8 **Q. PLEASE EXPLAIN WHAT IS PRESENTED IN THE COLUMN**  
9 **LABELED "TOTAL COMPANY PER BOOKS" ON PAGES 1, 4, AND 4a**  
10 **THROUGH 4d OF SHRUM EXHIBIT 1.**

11 A. The "Total Company Per Books" columns on Pages 1, 4, and 4a through 4d of  
12 Shrum Exhibit 1 show the actual 2010 amounts recorded on the books of Duke  
13 Energy Carolinas, with one exception. The working capital amount for operating  
14 funds shown on Line 4 of Page 4d is calculated using a one-eighth operations and  
15 maintenance formula, which is discussed in the testimony of Witness Shrum.  
16 Column 1 on Page 1 sets forth the operating income from electric operations for  
17 Duke Energy Carolinas for the year ending December 31, 2010. The Company's  
18 balances at December 31, 2010 for electric plant in service, accumulated  
19 depreciation and amortization, materials and supplies, working capital investment,  
20 accumulated deferred taxes, and operating reserves are shown in Column 1 on  
21 Pages 4 through 4d.

1           **III. NUCLEAR DECOMMISSIONING AND DEPRECIATION RATES**

2       **Q.     WHAT AMOUNT OF NUCLEAR DECOMMISSIONING EXPENSE IS**  
3           **INCLUDED IN DUKE ENERGY CAROLINAS' 2010 PER BOOK**  
4           **AMOUNT FOR DEPRECIATION EXPENSE?**

5       A.     Included on Line 5 in Column 1 of Page 1 of Shrum Exhibit 1 is an amount for  
6           nuclear decommissioning expenses of \$48.3 million. The South Carolina retail  
7           portion of the total nuclear decommissioning expense of approximately \$12  
8           million was approved by the Commission in its Order dated August 25, 2005, in  
9           Docket No. 2005-234-E.<sup>1</sup>

10           Duke Energy Carolinas filed its 2008 Cost Studies for the Catawba,  
11           McGuire, and Oconee nuclear units ("2008 Cost Studies") on April 10, 2009 and  
12           a Decommissioning Cost and Funding Report on July 24, 2009 in Docket No.  
13           1991-216-E. The 2008 Cost Studies determined that the estimated site-specific  
14           nuclear decommissioning costs for the Company's ownership interest in the listed  
15           nuclear units total approximately \$3 billion. The amounts in the Cost Studies are  
16           based on the prompt dismantlement method of decommissioning, as approved by  
17           this Commission, consistent with the Nuclear Regulatory Commission  
18           requirement that total funding is required as of the date of termination of the  
19           operating license of each unit. The funding report shows the results of a  
20           discounted cash flow analysis that combines the new decommissioning cost  
21           estimates from the 2008 Cost Studies with assumptions regarding future cost

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<sup>1</sup> *Order Approving Accounting Order to Adopt New Nuclear Decommissioning Funding Rates Effective January 1, 2005*, Docket No. 2005-234-E, Order No. 2005-442, dated August 25, 2005.

1 escalation and trust fund earnings. An annuity is calculated from the results to  
2 provide for an annual levelized funding of expected nuclear decommissioning  
3 costs. Because the annual levelized funding amount in total as shown on the 2008  
4 Decommissioning Cost and Funding Report did not differ significantly from the  
5 approved level, the Company recommended no change in the actual 2008 level of  
6 nuclear decommissioning expense recorded in the test year.

7 I also note that in its January 27, 2010 Order Approving Increase in  
8 Electric Rates and Charges, Order Number 2010-79 in Docket No. 2009-226-E  
9 (“2009 Rate Case Order”), the Commission approved a settlement agreement (the  
10 “Settlement Agreement”), which included approximately \$12 million for nuclear  
11 decommissioning expense allocated to the South Carolina retail cost of service.

12 **Q. PLEASE EXPLAIN THE DEPRECIATION RATES SHOWN ON SHRUM**  
13 **EXHIBIT 1, PAGE 4b.**

14 A. The depreciation rates shown on Page 4b of Shrum Exhibit 1 are the depreciation  
15 rates based on the Company’s 2008 depreciation study, which was approved by  
16 the Commission in its Order No. 2009-520, dated August 5, 2009 in Docket No.  
17 2009-253-E, and included in the Settlement Agreement that the Commission  
18 approved in the 2009 Rate Case Order. In her testimony, Witness Shrum explains  
19 two adjustments to the amount of depreciation expense. The first adjustment is to  
20 the depreciation expense in the test year to reflect the acceleration of generating  
21 plant retirement dates. The second adjustment is to amend the depreciation rates  
22 for general plant in order to amortize over a four year period certain reserve  
23 imbalances. With the exception of those two adjustments, the depreciation

1 expense requested by the Company in this proceeding is based on the depreciation  
2 rates derived from the 2008 depreciation study. The Company believes that these  
3 depreciation rates are reasonable for use in this proceeding.

4 **IV. CONCLUSION**

5 **Q. WAS WILES EXHIBIT 1 PREPARED BY YOU OR UNDER YOUR**  
6 **DIRECTION AND SUPERVISION?**

7 A. Yes, it was.

8 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

9 A. Yes.



DUKE ENERGY CAROLINAS, LLC  
UNCONSOLIDATED BALANCE SHEET  
AT DECEMBER 31, 2010  
(Dollars in Thousands)

Line No.		Amount
	<b>ASSETS</b>	
	<b>CURRENT ASSETS</b>	
1	Cash .....	\$ 152,958
2	Receivables .....	711,479
3	Allowance for doubtful accounts .....	(2,566)
4	Receivables, net .....	708,913
5	Restricted receivables of variable interest entities .....	642,844
6	Allowance for doubtful accounts .....	(6,011)
7	Restricted receivables of variable interest entities, net .....	636,833
8	Inventory - at average cost .....	723,664
9	Current maturity of deferred debits .....	110,071
10	Prepayments and other .....	216,960
11	Total current assets .....	2,549,399
	<b>INVESTMENTS AND OTHER ASSETS</b>	
12	Investments in and advances to subsidiaries and affiliates .....	11,034
13	Other investments, at cost or less .....	71,447
14	Nuclear decommissioning trust funds .....	2,013,614
15	Total investments and other assets .....	2,096,095
	<b>PROPERTY, PLANT AND EQUIPMENT</b>	
	Electric plant in service (at original cost)	
16	Production .....	14,026,863
17	Transmission .....	2,561,131
18	Distribution .....	8,706,218
19	Other .....	961,666
20	Electric plant in service .....	26,255,878
21	Accumulated depreciation and amortization .....	(10,441,142)
22	Electric plant in service, net .....	15,814,736
23	Nuclear fuel .....	1,023,986
24	Accumulated amortization .....	(667,067)
25	Nuclear fuel, net .....	356,919
26	Construction work in progress .....	3,648,033
27	Nuclear fuel in process .....	152,509
28	Total construction work in progress .....	3,800,542
29	Total electric plant, net .....	19,972,197
30	Other property - at cost .....	110,711
31	Accumulated depreciation .....	(17,887)
32	Total other property, net .....	92,824
33	Total property, plant and equipment, net .....	20,065,021
	<b>DEFERRED DEBITS</b>	
34	Debt expense, primarily refinancing costs, being amortized	
35	over the terms of related debt .....	169,001
36	Regulatory asset related to income taxes .....	601,413
37	Injuries & damages insurance receivable .....	812,977
38	Other .....	955,802
39	Total deferred debits .....	2,539,193
40	<b>TOTAL ASSETS</b> .....	<b>\$ 27,249,708</b>

DUKE ENERGY CAROLINAS, LLC  
UNCONSOLIDATED BALANCE SHEET (continued)  
AT DECEMBER 31, 2010  
(Dollars in Thousands)

Line No.		Amount
	<b>LIABILITIES AND MEMBER'S EQUITY</b>	
	<b>CURRENT LIABILITIES</b>	
1	Accounts payable .....	\$ 868,694
2	Taxes accrued .....	135,935
3	Interest accrued .....	124,418
4	Current maturities of long-term debt .....	8,037
5	Other .....	482,591
6	Total current liabilities .....	<u>1,619,675</u>
7	<b>LONG-TERM DEBT</b> .....	<u>7,462,308</u>
8	<b>NON-RECOURSE LONG-TERM DEBT OF VARIABLE INTEREST ENTITIES</b> ....	<u>300,000</u>
9	<b>DEFERRED INCOME TAXES</b> .....	<u>3,902,337</u>
	<b>DEFERRED CREDITS AND OTHER LIABILITIES</b>	
10	Investment tax credit .....	205,240
11	Nuclear decommissioning costs externally funded .....	269,937
12	Asset retirement obligations .....	1,727,990
13	Other .....	2,846,271
14	Total deferred credits and other liabilities .....	<u>5,049,438</u>
	<b>MEMBER'S EQUITY</b>	
15	Member's equity .....	8,938,594
16	Accumulated other comprehensive loss .....	<u>(22,644)</u>
17	Total member's equity .....	<u>8,915,950</u>
18	<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b> .....	<u>\$ 27,249,708</u>

**DUKE ENERGY CAROLINAS, LLC**  
**UNCONSOLIDATED INCOME STATEMENT**  
**FOR THE TWELVE MONTHS ENDING DECEMBER 2010**  
**(Dollars in Thousands)**

<u>Line No.</u>		<u>Amount</u>
1	<b>Electric Revenues</b>	<b>\$ 6,415,512</b>
	<b>Electric Expenses</b>	
	Operation	
2	Fuel Used in Electric Generation	1,714,513
3	Purchased Power	246,128
4	Other Operation	1,291,622
5	Maintenance	580,353
6	Depreciation & Amortization	777,484
	Taxes	
7	General	346,119
8	Federal Income	(131,941)
9	State Income	(25,013)
10	Provision for Deferred Income	599,966
11	Amortization of Investment Tax Credit	(7,418)
12	<b>Total Electric Expenses</b>	<b>5,391,813</b>
13	<b>Electric Operating Income</b>	<b>1,023,699</b>
	<b>Other Income</b>	
14	Allowance for Other Funds During Construction	173,823
15	Earnings (Loss) of Subsidiaries	(522)
16	Other Dividends and Interest	22,717
17	Other Income Deductions	(13,100)
18	Income Taxes - Non-Utility	(12,588)
19	Provision for Deferred Income Taxes (Non-Utility)	(9,506)
20	Other, net	15,597
21	<b>Total Other Income, Net</b>	<b>176,421</b>
22	<b>Gross Income</b>	<b>1,200,120</b>
	<b>Interest Deductions</b>	
23	Interest on Long-Term Debt	399,200
24	Allow for Borrowed Funds During Construction	(83,230)
25	Other Interest	30,303
26	Amortization of Debt Discount & Expense	16,026
27	<b>Total Interest Deductions</b>	<b>362,299</b>
28	<b>Net Income</b>	<b>\$ 837,821</b>

DUKE ENERGY CAROLINAS  
UNCONSOLIDATED STATEMENT OF CAPITALIZATION  
AT DECEMBER 31, 2010  
(Dollars in Thousands)

Line No.			Amount	Percent of Total
<b>MEMBER'S EQUITY</b>				
1	Member's equity .....		\$ 8,938,594	
2	Accumulated other comprehensive loss .....		(22,644)	
3	<b>Total member's equity .....</b>		<b>8,915,950</b>	<b>53.5</b>
<b>LONG-TERM DEBT (A)</b>				
		Rate Year Due		
4	First and refunding mortgage bonds .....	5.75% 2013	400,000	
5		5.30% 2015	500,000	
6		5.25% 2018	400,000	
7		5.10% 2018	300,000	
8		7.00% 2018	500,000	
9		4.30% 2020	450,000	
10		8.95% 2027	12,857	
11		6.00% 2038	500,000	
12		6.05% 2038	600,000	
13		5.30% 2040	750,000	
14	Pollution-control series, 1990 .....	0.80% 2014	40,000	
15	Pollution-control series, 1999 .....	0.41% 2012	20,000	
16		0.39% 2017	25,000	
17		0.41% 2017	10,000	
18	Pollution-control series, 2008 .....	4.63% 2040	50,000	
19		4.63% 2040	50,000	
20	Pollution-control series, 2006 .....	4.38% 2031	71,605	
21		4.38% 2031	71,595	
22	Pollution-control series, 2009 .....	3.60% 2017	77,000	
23	<b>Total mortgage and pollution control bonds .....</b>		<b>4,828,057</b>	
24	Senior debt .....	5.625% 2012	400,000	
25		6.25% 2012	750,000	
26		6.10% 2037	500,000	
27		6.00% 2028	300,000	
28		6.45% 2032	350,000	
29		6.90% 2016	14,000	
30		7.45% 2012	3,067	
31		9.21% 2011	667	
32	<b>Total senior debt .....</b>		<b>2,317,733</b>	
33	Obligation under capital lease .....		21,317	
34	Non-recourse long-term debt of variable interest entities .....		300,000	
35	Other long-term debt instruments .....		316,424	
36	Unamortized debt discount and premium, net .....		(13,186)	
37	Current maturities of long-term debt .....		(8,037)	
38	<b>Total unconsolidated long-term debt .....</b>		<b>7,762,308</b>	<b>46.5</b>
39	<b>TOTAL CAPITALIZATION .....</b>		<b>\$ 16,678,258</b>	<b>100.0</b>

Note(s):

Detail amounts may not add to totals shown due to rounding.

(A) Excludes long-term debt of affiliates.